

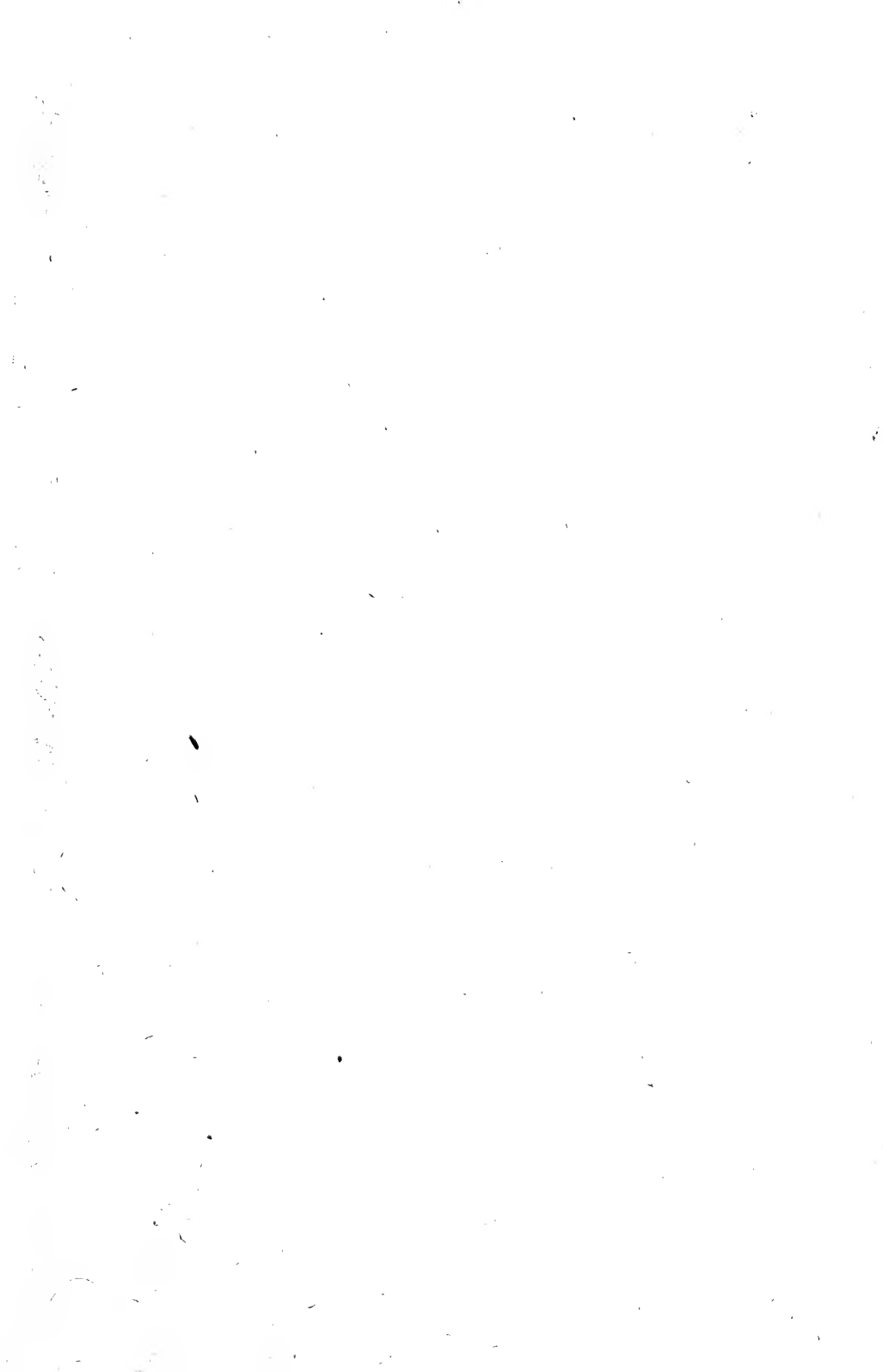
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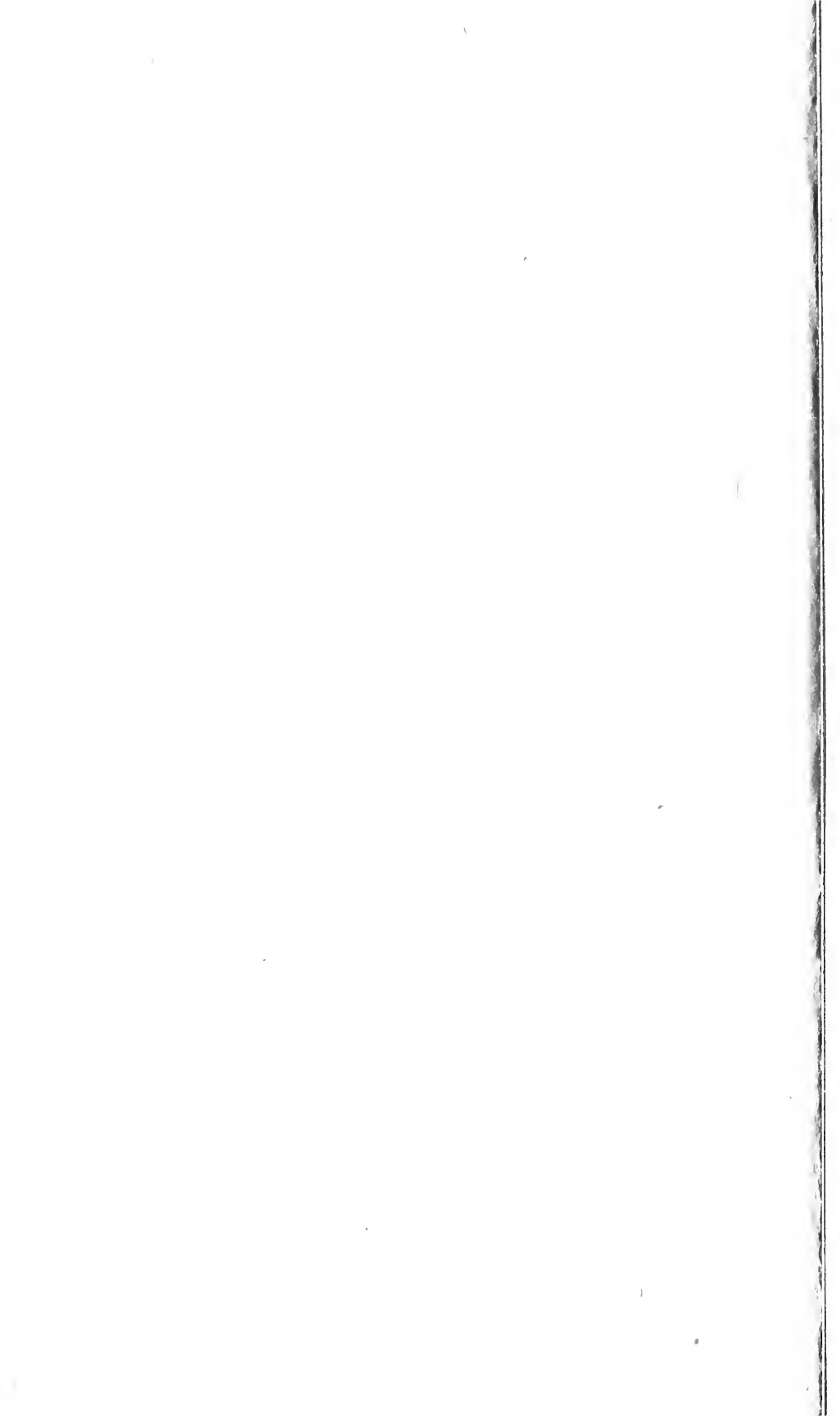
Commercial Banking Practice

The Law, Rules and Regulations
Governing Acceptances, Rediscounts
and Open Market Transactions of
Federal Reserve Banks



**National Bank of Commerce
in New York**

—
July, 1917



THE LAW, RULES AND REGULATIONS

GOVERNING

Acceptances

Rediscounts

**Open Market
Transactions**

OF

FEDERAL RESERVE BANKS

In Force

July 9, 1917

SERVICE DEPARTMENT

National Bank of Commerce in New York

JULY, 1917

THE
LIBRARY
OF THE
MUSEUM OF
ART AND
ARCHITECTURE
OF THE
UNIVERSITY OF
CHICAGO

Specimen of Bank Acceptances

This acceptance is based upon a transaction or transactions involving the importation or the exportation of goods.

Exchange for

\$100.000.-

NATIONAL BANK OF COMMERCE IN NEW YORK

ACCEPTED

No 1248

April 27th, 1917.

PAYABLE JULY 26th, 1917.

John J. ...

One hundred and ...

Dollars

New York, April 27th, 1917.

ASSISTANT CASHIER

ASST. MGR. FOREIGN DEPT.

Nine days after sight of this **PAYABLE**

of ... unpaid / pay to the Order of

Dollars

Value ... and charge the same to account of

NATIONAL BANK OF COMMERCE in New York,
BY New York City, N. Y.

SIGNATURE.

U. S. A.

PAID 2655.
BREWSTER & CO., INCORPORATED, N. Y.

Specimen of Trade Acceptances

(Signature of Acceptor)

\$ 50,000.-	New York,	April 27th,	1917.
At sixty days after sight			
the order of ourselves			Pay to
Fifty thousand no/100			Dollars
The obligation of the Acceptor hereof is to pay out of the purchase of goods from the drawer. Value received and charge the same to account of			
To Thomas Jones & Sons,			
No.	At National Bank of Commerce	June 26th, 1917	
	In New York, N.Y., U.S.A.		
	Thomas Jones & Sons		
No. 158.	New York City, N.Y. U.S.A.		
			John Doe & Co.

Foreword

This pamphlet is presented as a brief review and summary of the laws, rules, and regulations covering "Acceptances, Rediscounts, and Open Market Transactions of Federal Reserve Banks," as they are in force today.

In 1864 The National Bank Act, in providing a national currency secured by United States bonds, laid the foundation for sound banking in America. Thoughtful financiers gradually saw the need of a more elastic currency. Economic students advanced the thought that a bond-secured circulation should be supplemented, if not replaced, by currency having its security in commercial operations.

In 1913 the Federal Reserve Act was passed "to furnish an elastic currency" by permitting the Federal Reserve Banks to issue notes secured by commercial paper and a reserve of 40% in gold. The Federal Reserve Act has thus lent to our circulating medium an element of expansion and contraction which is governed by actual business demands.

This has been made all the more real through the greater latitude given to the use of acceptances by the Federal Reserve Act. The National Bank Act of 1864 gave the national banks the power to discount bills of exchange and acceptances of third parties. The right to lend the bank's credit by assuming the obligation of an acceptor was only authorized by the passage of the Federal Reserve Act in 1913. The original provisions of the Act, however, limited the acceptance of drafts or bills of exchange to those growing out of transactions involv-

ing the importation or exportation of goods. By amendments to the Act, approved September 7, 1916, and June 21, 1917, the power to accept has been extended to drafts or bills of exchange of certain domestic transactions and to those made for the purpose of creating dollar exchange.

The adoption of the Federal Reserve Act must be taken as an indorsement of the policy of strictly commercial banking always recognized as the sphere of the National Bank of Commerce in New York. From its inception this bank has been in the forefront of commercial development and necessarily has played its part in spreading the use of acceptances. In its statement of condition as of June 20, 1917, the Bank showed outstanding Acceptances aggregating \$13,612,427.84.

The National Bank of Commerce in New York is in close touch with the acceptance and discount market and with any new developments in it and will answer inquiries of bankers and business men on the general subject of acceptances or with regard to changes in the rules or regulations governing them.

Attention of Readers is directed to the comprehensive index at the conclusion of this volume.

ACCEPTANCES

Bankers' Acceptances

The Federal Reserve Act was approved December 23, 1913. This Act gave the right to National Banks to lend their credit by assuming the obligation of an acceptor. This power was limited to the acceptance of drafts or bills of exchange which grew out of the transactions involving the importation or exportation of goods. By amendments to the Federal Reserve Act approved September 7th, 1916, and June 21st, 1917, the acceptance powers of member banks in the Federal Reserve System were widened considerably. The following classes of commercial paper are now eligible for acceptance by banks under regulations and restrictions as indicated:

Any member bank may accept:

- I. Drafts or bills of exchange drawn upon it which grow out of the importation or exportation of goods.

(Section 13, Federal Reserve Act.)

- II. Drafts or bills of exchange drawn upon it which grow out of transactions involving the domestic shipment of goods, provided shipping documents conveying or securing title are attached at the time of acceptance.

(Amendment to Section 13, Federal Reserve Act, approved Sept. 7, 1916.)

- III. Drafts or bills of exchange drawn upon it which are secured at time of acceptance by a warehouse receipt,* or other such document conveying or securing title covering readily marketable staples.

(Amendment to Section 13, Federal Reserve Act, approved Sept. 7, 1916.)

*1. The warehouse issuing the receipt must be independent of the borrower.

2. Drawers may substitute other warehouse receipts for those given during the life of the acceptance.

(Informal Ruling of the Federal Reserve Board, December, 1916.)

The three classes of drafts or bills of exchange enumerated above may be accepted by the member banks, but are limited by the following conditions:

- A. The drafts or bills of exchange must not run for a longer period than six months.

(Section 13, Federal Reserve Act.)

- B. Unsecured drafts or bills of exchange of any one individual, company, firm or corporation must not be accepted in excess of 10% of the bank's capital and surplus, unless the drafts are secured either by attached documents or by some other actual security* growing out of the same transaction as the acceptance.**

(Amendment to Federal Reserve Act, approved Sept. 7, 1916.)

*This security may consist of:

- I. Shipping documents.
- II. Warehouse receipts.
- III. Trust receipts which do not enable the borrower to obtain the goods for his own use.

The 10% limitation, however, will apply in the case of the ordinary trust receipt which gives only a lien on the goods in the hands of the purchaser, or on their proceeds. The accepting bank must remain secured in the manner prescribed at the time of, and during the life of, the acceptance in order to be exempt from the 10% limitation. (Informal Ruling of Federal Reserve Board, March 13, 1917.)

**Section 5200 United States Revised Statutes holds, "The total liabilities to any association, of any person, or of any company, corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed one-tenth of the capital stock and surplus of the bank: Provided, however, that the total of such liabilities shall in no event exceed 30 per cent. of the capital stock of the association. But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as money borrowed." The limitations above imposed on the liabilities incurred by any national bank do not apply to the acceptances of such banks, since they apply to the indebtedness arising between the drawer and the accepting bank. Thus if a member bank merely contracts to pay an obligation at maturity by accepting a draft or bill of exchange drawn against it and this acceptance is discounted with a third party, the customer procuring the acceptance cannot be said to have borrowed money from the accepting bank, but has merely borrowed its credit, and such an acceptance should not be treated as a liability for money borrowed from such bank within the meaning of Section 5200. (The above is an Informal Ruling of the Federal Reserve Board, Jan. 3, 1916, and confirmed by Opinion of Counsel, Oct. 27, 1916.) But in the case where a member bank purchases its own acceptances, they must be treated as loans, and as such are subject to the above 10 per cent. limitation. (Informal Ruling of Federal Reserve Board, Nov. 27, 1916.)

- C. Outstanding drafts or bills of exchange may not be accepted in an aggregate of more than one-half of the bank's paid-up and unimpaired capital and surplus. But upon application to the Federal Reserve Board the bank may secure authority to accept up to 100% of its paid-up and unimpaired capital and surplus: *Provided* that the aggregate growing out of domestic acceptances shall in no event exceed 50% of such capital and surplus.

(Amendments, Section 13, Federal Reserve Act, approved Sept. 7, 1916, June 21, 1917.)

- IV. Drafts or bills of exchange having not more than three months' sight to run, which are drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States, for the purpose of furnishing dollar exchange as required by the usages of trade in the different countries, dependencies or insular possessions.

(Amendment, Section 13, Federal Reserve Act, approved Sept. 7, 1916.) *

In the December, 1916, Bulletin, the Federal Reserve Board made the following statement:

"The Board has decided to permit member banks to accept foreign drafts drawn upon them by banks or bankers in the following countries: Porto Rico, Santo Domingo, Costa Rica, Peru, Chile, Venezuela, Argentine Republic and Bolivia, as required by the usages and trade in the respective countries."

No member bank shall accept such drafts or bills of exchange for any one bank to an amount exceeding in the aggregate 10% of the paid-up and unimpaired capital and surplus of the accepting bank, unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security. No member bank shall accept such drafts or bills of exchange in

*The Federal Reserve Board has prescribed that any member bank desiring to accept drafts drawn by banks or bankers in foreign countries, dependencies, or insular possessions of the United States, for the purpose of furnishing dollar exchange, shall first make an application to the Federal Reserve Board setting forth the usages of trade in the different countries, dependencies or insular possessions in which such banks or bankers are located.

an amount exceeding at any time in the aggregate 50% of its paid-up and unimpaired capital and surplus.
(Circular Federal Reserve Board No. 2, Regulation C, Series 1916.)

The 50% limit imposed upon the amount of drafts which a member bank may accept for the purpose of furnishing dollar exchange is separate and distinct from and not included in the limits imposed by section 13 upon the amount of drafts or bills of exchange drawn against the shipment of goods or against warehouse receipts covering readily marketable staples, which a member bank may accept.

(Opinion of Counsel, June 15, 1917.)

We give below in abbreviated form the Informal Rulings of the Federal Reserve Board and Opinions of Counsel dealing with bankers' acceptances.

1. *Status of goods forming the basis of acceptances.*

It is not necessary that the specific goods covered by an acceptance be identified at the time of acceptance. In fact, goods may be purchased and shipped subsequent to the time of acceptance provided there is a bona fide contract for same.

(Informal Ruling of Federal Reserve Board, Nov. 11, 1915.)

2. *Renewing of acceptances.*

Upon the payment of an acceptance the accepting bank may, for a reasonable period, accept new drafts for the financing of the original transaction, even after the shipment and delivery of the goods: *provided*, however, that such renewals be stipulated in the original contract as an incidental condition of the transaction of importation or exportation upon which acceptance is based.

(Informal Ruling of Federal Reserve Board, Nov. 9, 1915.)

But a holder must never be under an obligation to renew the acceptance even for less than six months.

Similarly a letter of credit or credit agreement may lawfully be made by a national bank, which will extend by its terms for a period exceeding six months; the agreement must not be of such character as will impose upon the holders of

drafts accepted thereunder any obligation to renew such drafts, or that the period of acceptance shall exceed six months in duration as to any specified draft.

(Federal Reserve Bulletin, September, 1915.)

3. *Bank purchasing its own acceptances.*

Where a member bank purchases its own acceptances before maturity such acceptances are not included in the aggregate authorized by Section 13.

(Opinion of Counsel, July 25, 1916.)

4. *General rules covering drafts and bills of exchange.*

- a. A bill or note made payable "in exchange" is "non-negotiable."

(Opinion of Counsel, Aug. 10, 1916.)

- b. A provision in a draft or bill of exchange stating that it is "payable with interest at the rate of _____ per annum after maturity if payment is delayed" does not affect its negotiability.

5. *Acceptances based on imports or exports.*

In order that a transaction may be considered as involving the importation or exportation of goods, in the case of an exporter in a foreign country, he must not only intend to sell the goods in a foreign country, but there must be an actual contract of sale. It must appear that the drafts are merely drawn in advance of the actual shipment of goods under contract of sale.

(Informal Ruling, Federal Reserve Board, March 24, 1917.)

6. *Acceptances drawn to finance the future shipment of goods.*

The Board is of the opinion that a national bank may properly accept a draft drawn for the purpose of importing goods whether or not the sale of the goods under consideration has actually been consummated at the time of the acceptance of the draft. If the accepting bank is assured that the proceeds of the draft will ultimately be used solely for the purpose of financing a transaction involving the importation of goods, it is immaterial

whether or not the goods have actually been sold at the time of acceptance. In fact, it is not even necessary that the goods to be sold be identified at the time of acceptance. The accepting bank, however, must be reasonably sure that the draft is drawn for the purpose of financing a transaction involving the importation or exportation of goods, and that its proceeds will be used for that purpose.

(Informal Ruling, Federal Reserve Board, June 14, 1917.)

A member bank may accept drafts drawn upon it:

1. In settlement of advances for cotton being accumulated by cotton buyers for export.

(Informal Ruling, Federal Reserve Board, Aug. 5, 1916.)

2. Against shipment of bullion.

(Informal Ruling, Federal Reserve Board, Dec. 4, 1916.)

A member bank may not accept drafts drawn:

1. By an acceptance house upon a member bank pledging as collateral an acceptance based on imports and exports.

(Informal Ruling, Federal Reserve Board, Dec. 8, 1916.)

Acceptances for Investment by a Member Bank

The amount of acceptances which may be purchased by a member bank.

Section 5200, as amended in 1906, reads as follows: "The total liabilities to any association, of any one person, or of any company, corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed one-tenth part of the amount of the capital stock of such association, actually paid in and unimpaired, and one-tenth part of its unimpaired surplus fund: *Provided*, however, that the total of such liabilities shall in no event exceed thirty per centum of the capital stock of the association. But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as money borrowed."

"Bills of exchange" may be taken as including bankers' and trade acceptances as defined by the Federal Reserve Board, as the mere fact of their having been accepted does not destroy their essential character.

The "discount" of such bills may be taken as including the purchase of them in their accepted form by a national bank in the open market.

A ruling of the Counsel of the Federal Reserve Board, dated Nov. 27, 1916, defines the term "actually existing values" as follows:

1. A bill of exchange discounted before acceptance must be accompanied by shipping documents, warehouse receipts, or other papers securing title to the goods sold if it is to be treated as drawn against existing values.

2. If the bill is discounted after acceptance it may be treated as drawn against existing values if drawn against the drawee at the time of, or within a reasonable time after, the shipment or delivery of the goods sold. There must be reasonable grounds to believe at the time the bill is drawn that the goods are in existence in the hands of the drawee either in their original form or in the shape of the proceeds of their sale.

In order to decide whether the amount of the acceptances of one party, individual or firm, purchased by a national bank is limited under Section 5200 to 10% of the paid-up capital and surplus of the national bank, it is necessary to determine the conditions under which the bill of exchange was drawn.

Section 13 of the Federal Reserve Act as amended permits national banks to accept bills of exchange drawn upon it:

1. Which grow out of the importation or exportation of goods.

2. Which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance.

3. Which are secured at the time of acceptance by a warehouse receipt, or other such document conveying or securing title covering readily marketable staples.

4. Which are drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions in which such banks or bankers are located.

It is clear in the light of the manner in which the Counsel of the Federal Reserve Board construes "actual existing values" that acceptances of national banks and

also of non-member banks and trust companies, which come under 1, 2 and 3, may be considered as drawn against "actual existing values." In the case of 4 such would not be the fact, for if the drawing of the draft could be identified with an actual shipment of goods, then it would fall under 1.

We may come to the conclusion that a national bank may purchase the acceptances of national or state banks, or of trust companies, to an unlimited extent, even though they are the liabilities of one party, firm or corporation, provided they involve the importation or exportation of goods, the domestic shipment of goods, and are accompanied by shipping documents, or were secured at the time of acceptance by a warehouse receipt, or other such document conveying or securing title covering readily marketable staples. Trade acceptances may also be purchased provided they can be classed as being drawn against actually existing values as defined by the Counsel of the Federal Reserve Board.

REDISCOUNTS AND OPEN MARKET TRANSACTIONS

The discount, rediscount, purchase and sale by any Federal Reserve bank of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations and regulations as may be imposed by the Federal Reserve Board.

(Section 13, Federal Reserve Act, as amended Sept. 7, 1916.)

Rediscounts

Any Federal Reserve Bank may rediscount for its member banks:

1. Promissory Notes.
2. Drafts or Bills of Exchange.
3. Trade Acceptances.
4. Agricultural Paper (6 months).
5. Commodity Paper.
6. Bankers' Acceptances.

DEFINITIONS:

(As given by Federal Reserve Board in Circular No. 2, Regulation A, Series 1916.)

Promissory Note—is an unconditional promise, in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer.

Draft or Bill of Exchange—is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person.

Trade Acceptance—is a draft or bill of exchange drawn by the seller on the purchaser of goods sold and accepted by such purchaser.

Agricultural Paper (6 months)—is a note, draft, bill of exchange or trade acceptance drawn or issued for agricultural purposes, or based on live stock; that is, a note, draft, bill of exchange or trade acceptance, the proceeds of which have been used or are to be used for agricultural purposes, including the breeding, raising, fattening, or marketing of live stock, and which has a maturity at the time of discount of not more than six months.

Commodity Paper—is a note, draft, bill of exchange, or trade acceptance accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt, covering approved and readily marketable, non-perishable staples properly insured.

Bankers' Acceptance—is a draft or bill of exchange of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged in the business of granting bankers' acceptance credits.

General Regulations Covering Rediscounts by Federal Reserve Banks.

(Circular No. 2, Federal Reserve Board, Regulation A, Series 1916.)

The above forms of paper are eligible for rediscount *provided*:

1. The proceeds have been used or are to be used in producing, purchasing, carrying, or marketing goods* in one or more of the steps of the process of production, manufacture or distribution; and not for permanent or fixed investments of any kind, such as land, buildings or machinery.

*"Goods" is construed to include goods, wares, merchandise, or agricultural products, including live stock.

2. They are not issued for carrying or trading in investment securities other than the bonds and notes of the Government of the United States.
3. They have a maturity at the time of discount of not more than 90 days; but, if drawn or issued for agricultural purposes or based on live stock, they may have a maturity at the time of discount of not more than six months.
4. The aggregate of notes, drafts and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one member bank, shall at no time exceed 10 per cent. of the unimpaired capital and surplus of such bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

A bill of exchange discounted before acceptance may be said to be drawn against actually existing values, within the meaning of Section 13 of the Federal Reserve Act, when and only when it is accompanied by shipping documents, warehouse receipts or other papers securing title to the goods sold. An accepted bill of exchange, unaccompanied by shipping documents or other such papers, may be considered as drawn against actually existing values if drawn at the time of, or within a reasonable time after, the shipment or delivery of the goods sold. In this latter case there must be reasonable grounds to believe that the goods are in existence in the hands of the drawee either in their original form or in the shape of the proceeds of their sale.

(*Opinion of Counsel, Nov. 27, 1916.*)

5. They are indorsed by a member bank.

Special Regulations Covering Rediscounts by Federal Reserve Banks.

(Circular Federal Reserve Board No. 2, Regulation B, Series 1916.)

1. In the case of a promissory note the member bank shall certify in its application whether the note

offered for rediscount has been discounted for a depositor or another member bank or whether it has been purchased from a non-depositor, and whether a financial statement of the borrower is on file. The requirement of a statement with respect to any note discounted by a member bank for a depositor or another member bank is left to the discretion of the Federal Reserve Board and may be waived:

- a. If it is secured by a warehouse, terminal or other similar receipt covering goods in storage;
 - b. If the aggregate of obligations of the borrower, rediscounted and offered for rediscount at the Federal Reserve Bank, is less than a sum equal to 10% of the paid-in capital of the member bank and does not exceed \$5,000.
2. In the case of commodity paper the rate of interest or discount—including commission charged the maker—does not exceed 6% per annum.
 3. In the case of bankers' acceptances, they must have been:
 - a. A draft or bill of exchange drawn under a credit opened for the purpose of conducting or settling accounts resulting from a transaction or transactions involving:
 - (1) The shipment of goods between the United States and any foreign country or between the United States and any of its dependencies or insular possessions, or between foreign countries.
 - (2) The domestic shipment of goods, provided shipping documents are attached at the time of acceptance.

- b. A draft or bill of exchange which is secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples.
- c. A draft or bill of exchange drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange and accepted or, in case of non-acceptances, indorsed, by a member bank.

Such drafts or bills may be acquired prior to acceptance, provided they have the indorsement of a member bank.

INFORMAL RULINGS OF THE FEDERAL RESERVE BOARD AND OPINIONS OF COUNSEL

The law places no limit on the amount of commercial paper which a member bank may rediscount with the Federal Reserve Bank, leaving the matter to the discretion of the Federal Reserve Board.

(*Informal Ruling of Federal Reserve Board, Aug. 4, 1916.*)

The following special rulings have been made by the Federal Reserve Board regarding the eligibility of paper for rediscount with the Federal Reserve Banks.

Eligible—

1. Drafts secured by pig iron.
(*Informal Ruling of Federal Reserve Board, June 17, 1915.*)
2. Crosstie and lumber export bills.
(*Informal Ruling of Federal Reserve Board, Aug. 12, 1915.*)
3. Bankers' acceptances covered by cattle collateral.
(*Informal Ruling of Federal Reserve Board, Jan. 6, 1916.*)
4. Renewals of drafts.
(*Informal Ruling of Federal Reserve Board, June 6, 1916.*)
5. Acceptances covering the sale of advertising space.
(*Opinion of Counsel, Jan. 9, 1917.*)
6. A note, draft or bill of exchange drawn for the purpose of carrying or trading in bonds or notes of the United States.
(*Federal Reserve Bulletin, March, 1917.*)

Ineligible—

1. Bankers' acceptances covering purchases of raw materials and payment of labor used in manufacturing and unaccompanied by warehouse receipts or other required instruments.

(Informal Ruling of Federal Reserve Board, Jan. 8, 1916.)

2. A bill of exchange bearing a qualified or conditional indorsement.

(Opinion of Counsel, July 25, 1916.)

3. A demand note or bill, if it is not in terms payable within the prescribed 90 days, but, at the option of the holder, it may not be presented for payment until after that time.

(Informal Ruling of Federal Reserve Board, April 19, 1917.)

Open Market Transactions

Section 14 of the Federal Reserve Act authorizes Federal Reserve Banks in the open market to purchase from or to sell to banks, firms, corporations or individuals, acceptances and bills of exchange of the kinds and maturities made eligible by the Act for rediscount, with or without the indorsement of a member bank.

The following regulations cover this section of the Act:

(Circular of Federal Reserve Board, Regulation B, Series No. 2, 1916.)

1. The acceptances or bills of exchange must not have been issued for carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.
2. The proceeds of the acceptances or bills of exchange must not have been used or must not be used for permanent or fixed investments of any kind, such as land, buildings, or machinery, or for investments of a merely speculative character.
3. The bills of exchange must have been accepted by the drawee prior to purchase by the Federal Reserve Bank unless it is accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt conveying security title.
4. Trade acceptances must be issued or drawn for agricultural, industrial, or commercial purposes or the proceeds must have been used or are to be used for the purpose of producing, purchasing, carrying or marketing goods in one or more of the steps of the process of production, manufacture or distribution.
5. The acceptances and bills of exchange must have a maturity at the time of purchase by the Federal Reserve Bank of not more than 90 days.

6. In the case of trade acceptances or bills of exchange, unless they are indorsed or accepted by member banks they are not eligible for purchase unless a satisfactory statement has been furnished of the financial condition of one or more of the parties thereto, and in the case of an acceptance the acceptor must furnish a satisfactory statement of financial condition. (In cases where this is impossible, as in bills drawn by a foreign concern or accepted by a foreign bank, a satisfactory statement of the indorsing bank may be substituted. *Informal Ruling of Federal Reserve Board, Jan. 3, 1916.*)

7. Evidence of Eligibility—

A Federal Reserve Bank shall take such steps as it deems necessary to satisfy itself as to the eligibility of the bill offered for purchase, unless it presents prima facie evidence thereof or bears a stamp or certificate affixed by the acceptor or the drawer, showing that it is a trade acceptance. No evidence of eligibility is required with respect to a bill accepted by a national bank.

INFORMAL RULINGS AND OPINIONS OF COUNSEL.

1. Federal Reserve Banks cannot discount commodity paper directly for firms, but it must come through, bearing the indorsement of, a member bank.
(*Informal Ruling of Federal Reserve Board, Feb. 1, 1916.*)
2. Promissory notes are ineligible for purchase in the open market.
(*Opinion of Counsel, Oct. 8, 1915.*)
3. A bill of exchange drawn by an agent, branch house or foreign agency of a corporation on the corporation itself is ineligible for purchase in the open market.
(*Opinion of Counsel, Aug. 2, 1916.*)

FEDERAL RESERVE ACT

Powers of Federal Reserve Banks.

Section 13 as amended to date.

“Any Federal Reserve Bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal Reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal Reserve Banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal Reserve Banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: *Provided*, such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided further*, That nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefore by exchange or otherwise; but no such charges shall be made against the Federal reserve banks.

“Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal Reserve Bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace: *Provided*, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal Reserve Bank, to be ascertained and fixed by the Federal Reserve Board.

“The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

“Any Federal Reserve Bank may discount acceptances of the kinds hereinafter described, which have a

maturity at the time of discount of not more than three months' sight, exclusive of days of grace, and which are indorsed by at least one member bank.

"Any member bank may accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. No member bank shall accept, whether in a foreign or domestic transaction, for any one person, company, firm, or corporation to an amount equal at any time in the aggregate to more than ten per centum of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or by some other actual security growing out of the same transaction as the acceptance; and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus: *Provided, however,* That the Federal Reserve Board, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus: *Provided, further,* That the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus.

"Any Federal Reserve Bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal Reserve Banks, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of

exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal Reserve Banks under the provisions of this Act, or by the deposit or pledge of bonds or notes of the United States."

Section fifty-two hundred and two of the Revised Statutes of the United States is hereby amended so as to read as follows: "No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

"First. Notes of circulation.

"Second. Moneys deposited with or collected by the association.

"Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

"Fourth. Liabilities to the stockholders of the association for dividends and reserve profits.

"Fifth. Liabilities incurred under the provisions of the Federal Reserve Act.

"The discount and rediscount and the purchase and sale by any Federal Reserve Bank of any bills receivable and of domestic and foreign bills of exchange, and of acceptances authorized by this Act, shall be subject to such restrictions, limitations, and regulations as may be imposed by the Federal Reserve Board.

"That in addition to the powers now vested by law in national banking associations organized under the laws of the United States any such association located and doing business in any place the population of which does not exceed five thousand inhabitants, as shown by the last preceding decennial census, may, under such rules and regulations as may be prescribed by the Comptroller of the Currency, act as the agent for any fire, life, or

other insurance company authorized by the authorities of the State in which said bank is located to do business in said State, by soliciting and selling insurance and collecting premiums on policies issued by such company; and may receive for services so rendered such fees or commissions as may be agreed upon between the said association and the insurance company for which it may act as agent; and may also act as the broker or agent for others in making or procuring loans on real estate located within one hundred miles of the place in which said bank may be located, receiving for such services a reasonable fee or commission: *Provided, however,* That no such bank shall in any case guarantee either the principal or interest of any such loans or assume or guarantee the payment of any premium on insurance policies issued through its agency by its principal: *And provided further,* That the bank shall not guarantee the truth of any statement made by an assured in filing his application for insurance.

“Any member bank may accept drafts or bills of exchange drawn upon it having not more than three months’ sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Federal Reserve Board by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. Such drafts or bills may be acquired by Federal Reserve Banks in such amounts and subject to such regulations, restrictions, and limitations as may be prescribed by the Federal Reserve Board: *Provided, however,* That no member bank shall accept such drafts or bills of exchange referred to in this paragraph for any one bank to an amount exceeding in the aggregate ten per centum of the paid-up and unimpaired capital and surplus of the accepting bank unless the draft or bill of exchange is accompanied by documents conveying or securing title or by some other adequate security: *Provided further,* That no member bank shall accept such drafts or bills in an amount exceeding at any time the aggregate of one-half of its paid-up and unimpaired capital and surplus.”

OPEN MARKET TRANSACTIONS

Section 14 as amended to date.

“Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers’ acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.

“Every Federal reserve bank shall have power:

“(a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold;

“(b) To buy and sell, at home or abroad, bonds and notes of the United States, and bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board;

“(c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined;

“(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;

“(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent or upon the order and direction of the Federal Reserve Board and under regulations to be prescribed by said board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Federal Reserve Board, to open and maintain banking accounts for such foreign correspondents or agencies. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Federal Reserve Board, any other Federal reserve bank may, with the consent and approval of the Federal Reserve Board, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board.”

**DIGEST OF INFORMAL RULINGS
AND
OPINIONS OF COUNSEL
OF THE
FEDERAL RESERVE BOARD**

Acceptances

OPINIONS OF COUNSEL

Discount of Acceptances Indorsed by Member Banks Located in Another District.

Federal Reserve Banks may, under the provisions of Section 13, discount acceptances based on the importation or exportation of goods, provided they have a maturity at time of discount of not more than three months, and provided, further, that they are indorsed by at least one member bank. It is immaterial whether this member bank is located in the district of the Federal Reserve Bank which is making the discount or in any other district, the term "member bank" being broad enough to include member banks wherever located.

Such discounts, being made under the provisions of Section 13, are eligible as collateral security for Federal Reserve notes issued under the provisions of Section 16.

(Page 98, June, 1915, Bulletin.)

Waiver of Demand, Notice and Protest.

The acceptor of a bill of exchange is the principal debtor. The law requires that notice of demand and protest be given to parties secondarily liable in case of dishonor. This right to receive notice is a personal one which may be waived by the parties entitled thereto—that is, the drawer and indorsers; but such waiver has no effect on the acceptor or principal debtor.

(Page 277, September, 1915, Bulletin.)

Member Bank Acceptances.

When a member bank purchases its own acceptance before maturity such acceptance need not be included in the aggregate of acceptances authorized by Section 13.

(Page 397, August, 1916, Bulletin.)

Qualified Acceptances.

A bill of exchange drawn payable “at sight” and accepted payable in three months is a qualified or conditional acceptance, and the maker and prior indorsers are released. The instrument in effect becomes the promissory note of the acceptor, and would not come within the exception to Section 5200 as a “bill of exchange” drawn in good faith against actually existing values.

(Page 463, September, 1916, Bulletin.)

Presentment of Bills for Acceptance.

The drawer and indorsers of a bill of exchange made payable on a date specified in the bill are not discharged by a failure to present it for acceptance, unless the bill expressly provides that it must be presented for that purpose, or unless it is payable elsewhere than at the residence or place of business of the drawee.

(Page 608, November, 1916, Bulletin.)

Member Bank Acceptances.

(a) The limitations imposed by Section 5202, Revised Statutes, on the liabilities incurred by any national bank do not apply to acceptances of such banks.

(b) A member bank may legally purchase its own acceptances, but such a transaction is equivalent to a loan

or advance to the customer for whom the acceptance was made and the liability of such customer becomes subject to the limitations of Section 5200, Revised Statutes.

(c) The limitations imposed by Section 5200, Revised Statutes, on the amount of money which may be borrowed by any individual from a member bank do not apply to acceptances of such bank.

(d) The power of member banks to accept drafts or bills of exchange should not be confused with the power to discount the acceptances of others.

(Page 680, December, 1916, Bulletin.)

Bankers' Acceptance Secured by Bill of Sale.

A bankers' acceptance drawn for the purpose of purchasing goods secured by a bill of sale of stock in hand is not eligible for purchase by Federal Reserve Banks under the provisions of Regulation B, Series of 1916.

(Page 684, December, 1916, Bulletin.)

Place of Payment of Acceptances.

An acceptance to pay at a particular place different from the residence of the acceptor is a general acceptance, unless it expressly states that the bill is to be paid there and not elsewhere, and does not render the bill non-negotiable.

(Page 289, April, 1917, Bulletin.)

INFORMAL RULINGS

Discount of Renewals.

Acceptance business of Federal Reserve Banks is not restricted "to the original transactions only," if the transaction has not been liquidated. When the first acceptance matures a member bank may renew the acceptance, and there is no reason why a Federal Reserve Bank may not discount such renewed acceptance although a Federal Reserve Bank must not engage in advance to make such discount of a renewal.

(Page 126, July, 1915, Bulletin.)

A national bank is held to be authorized to enter into an agreement having more than six months to run by the terms of which it obligates itself for a period of time specified in the agreement to accept drafts drawn upon it, provided such drafts grow out of transactions involving the importation or exportation of goods, and that the individual drafts have not more than six months' sight to run. This distinction is emphasized: "While a letter of credit or credit agreement may lawfully be made by a national bank which will extend by its terms for a period exceeding six months, the agreement must not be of such a character as will impose upon the holders of drafts accepted thereunder any obligation to renew such drafts so that the period of acceptance shall exceed six months in duration as to any specified draft."

(Page 269, September, 1915, Bulletin. See also page 584, November, 1916, Bulletin.)

Upon payment of an acceptance the accepting bank may for a reasonable period accept new drafts for the financing of the original transaction, even after the shipment and delivery of the goods, provided such renewals be stipulated in the original contract as an incidental condition of the transaction of importation or exportation upon which the acceptance is based.

(Page 405, December, 1915, Bulletin.)

Federal Reserve Banks Determine Eligibility.

Federal Reserve Banks must determine the eligibility of an acceptance.

(Page 362, November, 1915, Bulletin.)

Trade Acceptance.

Tentatively held that a 90-day sight draft drawn by a firm in Calcutta on a company in Boston and accepted by that firm, covering a transaction involving the transportation of merchandise from Calcutta to Honolulu, is a trade acceptance rather than a bankers' acceptance. Ruling based upon facts submitted and subject to local conditions.

(Page 404, December, 1915, Bulletin.)

Identification of Specific Goods.

Held not to be necessary that the specific goods covered by an acceptance based upon an import or export transaction must be identified at the time of the acceptance.

(Page 405, December, 1915, Bulletin.)

Goods Involved.

In interpreting the word "involved" in connection with the importation or exportation of goods, upon which an acceptance has been based, it is held that goods may be purchased and shipped subsequent to the time of the first acceptance, provided that there is a definite bona fide contract for the shipment of the goods within a specified and reasonable time.

(Page 405, December, 1915, Bulletin.)

Good Faith a Test.

Good faith must be relied upon to a large extent in determining whether an acceptance is based upon a transaction involving the importation or exportation of goods.

(Page 406, December, 1915, Bulletin.)

Banks May Ask Assurances.

Member banks may best protect themselves in determining whether acceptances are based upon the exportation or importation of goods by stipulating the right at times to ask for substantiation of assurances from a customer.

(Page 406, December, 1915, Bulletin.)

Evidence from State Member Banks.

Federal Reserve Bank reserves the right to ask State member banks for evidence underlying the certification given it as to an acceptance.

(Page 406, December, 1915, Bulletin.)

Responsibility with Federal Reserve Banks.

Ultimate responsibility in purchasing acceptances is held to rest with Federal Reserve Banks.

(Page 13, January, 1916, Bulletin.)

Contract Not Fulfilled.

A member bank would be justified, if fully secured, in accepting drafts drawn by a local cotton-buying firm

having a contract to sell to foreign buyers if the transaction, after having been made in good faith, ultimately resulted in the sale of the cotton to an American instead of to a foreign purchaser. It was assumed in connection with this interpretation of Section 13 that the bank had received permission from the Board to accept drafts or bills of exchange drawn upon it; that the cotton buyers had a contract to sell cotton to a firm of Liverpool; that they held the cotton subject to shipping receipt of the Liverpool firm and that because of freight rates and shipping conditions the Liverpool firm changed its policy and directed the sale of the cotton.

(Page 13, January, 1916, Bulletin.)

Statement Form.

Announcement that the Federal Reserve Board will require statements satisfactory to it in connection with acceptances is held to mean that the statement shall be satisfactory in form.

(Page 13, January, 1916, Bulletin.)

Application of Section 5200.

The 10 per cent. limitation imposed by Section 5200 of the Revised Statutes is not intended to apply to the mere acceptance of a bill of exchange, but the provisions of Section 5200 apply to the indebtedness arising between the drawer of the bill and the accepting bank in case the drawer fails to furnish funds with which to meet the acceptance at maturity.

(Page 64, February, 1916, Bulletin.)

Non-member Trust Company Acceptances—When Ineligible.

Acceptances drawn by a manufacturer on and accepted by a trust company not a member of the Federal Reserve System, the proceeds of which are to be used for purchases of raw material and payment for labor where the goods had not been sold and no warehouse receipts or other instruments could be furnished, are held not to be eligible for purchase by a Federal Reserve Bank.

(Page 65, February, 1916, Bulletin.)

Bills Drawn in Foreign Countries.

Authorizing Federal Reserve Banks, pending a change in paragraph 5, Regulation T, of 1915, to buy bills of exchange drawn in foreign countries on American acceptors where in case it is impossible to obtain information from the acceptor or drawer a satisfactory statement from the indorsing bank or banker as to financial condition is obtained. Discount rate for bankers' acceptances includes domestic acceptances.

(Page 111, March, 1916, Bulletin.)

Stamp "Trade Acceptance" Has No Value.

The fact that a loan company has stamped a bill a trade acceptance and signed as "acceptor" does not in itself make it a trade acceptance and it is not eligible for purchase as a trade acceptance.

(Page 112, March, 1916, Bulletin.)

Must be Accepted by Drawee.

A draft to be eligible as an acceptance must be accepted by the drawee and not by anyone else. A draft drawn by a corporation can not be purchased by a Federal Reserve Bank in the open market as a bankers' acceptance. For the same reason such a draft is ineligible as a trade acceptance.

(Page 112, March, 1916, Bulletin.)

Advances on Cotton for Export.

Section 13 of Federal Reserve Act is construed to justify a national bank in accepting a draft drawn upon it in settlement of advances for cotton being accumulated by cotton buyers for export. The fact that there is a temporary delay in actual shipment of goods is immaterial.

(Page 458, September, 1916, Bulletin.)

Use by Commercial Concerns.

Large commercial concerns are initiating the practice of allowing a discount where settlement is made by trade acceptance.

(Page 524, October, 1916, Bulletin.)

Business Paper and Section 5200, Revised Statutes.

The Board finds it necessary to adhere to its established policy of not making any general ruling on the question how much a bank may invest in any particular security. It held, however, that if a firm is a bona fide owner for value of the acceptances of any particular institution and such acceptances are sold to or discounted with a member bank the acceptances could no doubt be treated as commercial or business paper actually owned by the party negotiating them and would therefore be excepted from the limitations of Section 5200, Revised Statutes. Ruling rests upon the fact that paper is actually commercial or business paper owned by the person negotiating it. (November 4, 1916.)

(Page 678, December, 1916, Bulletin.)

Limitations on Amount of Acceptances as Imposed by Section 13 of Federal Reserve Act.

In any case where shipping documents or warehouse receipts are held by the acceptor the 10 per cent. limit does not apply; so also in any case where the acceptor holds a trust receipt which does not enable the borrower to obtain the goods for his own use, the 10 per cent. limit does not apply; but in any case where the bank holds merely the ordinary trust receipt which gives it only a lien on the goods in the hands of the purchaser or on their proceeds, the 10 per cent. limit should apply.

(Page 286, April, 1917, Bulletin.)

Acceptances.

A bank having a capital and surplus of \$288,000 may, under the National Bank Act, lend to a customer on his own obligation a sum not to exceed \$28,800 (10 per cent. of capital and surplus). The bank may, however, in addition to such loan, discount for the same customer (although he may have a direct line of credit in bank up to the 10 per cent. limit), bills of exchange drawn against actually existing values, or commercial or business paper actually owned by him. The bank may, therefore, legally discount for the customer bills of exchange drawn by him for the purchase price of commodities sold, and accepted by the drawee; or it may discount for the customer the note of

the purchaser if actually owned by him, without reference to the 10 per cent. limitations prescribed by Section 5200. A member bank acquiring such acceptance or notes may rediscount them with its Federal Reserve Bank. There is no limitation upon the acceptances, but the notes would be subject to the limitations prescribed by Section 13 of the Federal Reserve Act; and the Federal Reserve Bank cannot discount paper bearing the signature of the same borrower in an amount greater than 10 per cent. of the capital and surplus of the member bank offering such paper. Bills of exchange drawn against actually existing values and accepted by the drawee within a reasonable time after the shipment of the goods may be rediscounted with the Federal Reserve Bank without reference to the limitations imposed by Section 13 of the Federal Reserve Act. I am informed by counsel for the Comptroller of the Currency that under the practice followed by his office bills or notes which are renewed at maturity are not to be treated by the person negotiating them as bills drawn against actually existing values or as commercial or business paper, and that renewals are therefore subject to the limitations of Section 5200.

(Page 287, April, 1917, Bulletin.)

OPEN MARKET TRANSACTIONS

OPINIONS OF COUNSEL.

Single Name Paper.

Any Federal Reserve Bank may, under the provisions of Section 14 of the Federal Reserve Act, purchase acceptances and bills of exchange of certain kinds and maturities in the open market, but promissory notes as distinguished from bills of exchange, whether one or more names, are not eligible for such purchase.

(Page 365, November, 1915, Bulletin.)

Negotiability of Bills and Notes Made Payable "in Exchange."

A bill or note made payable "in exchange" is not payable "in money," and is, therefore, not negotiable. Federal Reserve Banks can not be required to receive checks and drafts drawn in this manner for collection or credit.

(Page 459, September, 1916, Bulletin.)

Bill of Exchange Drawn by the Drawee.

An instrument in the form of a bill of exchange, drawn by an agent of a corporation upon the corporation itself, is not a bill of exchange such as is eligible for purchase in the open market by Federal Reserve Banks.

(Page 462, September, 1916, Bulletin.)

INFORMAL RULINGS.

Open Market Transactions.

As to open market transactions, the Board has reached the conclusion that Congress drew a distinction in Sections 13 and 14 between the several forms of commercial paper, and that promissory notes, even though bearing

an additional indorsement, must be regarded as excluded from open market purchases under Section 14. There remains, then, as eligible for purchase under this section "cable transfers" and "bills of exchange" of two kinds: (1) So-called foreign bills of exchange, and (2) domestic acceptances drawn by one party on another, as by a seller of goods upon the purchaser, such as have been classified by the Board as trade acceptances either accepted or not accepted at the time of purchase.

Decision as to whether banks should engage in such open market operations rests entirely with them and not with the Federal Reserve Board.

The Board leaves to each Federal Reserve Bank the authority granted under Section 14 with respect to bills of exchange without restricting regulations.

Banks are cautioned that no bill be bought in the open market which, even if indorsed by a member bank, would be ineligible for rediscount under Section 13.

(Page 360, November, 1915, Bulletin.)

PAPER ELIGIBLE FOR REDISCOUNT

OPINIONS OF COUNSEL.

Conditions Attached to and Affecting Negotiability of Bills of Exchange and Acceptances.

A bill of exchange, in order to be negotiable, must be an unconditional order to pay, on demand or at a fixed or determinable future time, a certain sum of money to order or to bearer. If payment is dependent upon the happening of a certain contingency, the bill is conditional and non-negotiable. If payment is confined to the proceeds of a particular fund and is not chargeable to the general credit of the drawer, the bill is conditional and non-negotiable.

A general acceptance of a conditional bill or a conditional acceptance of an unconditional bill makes the acceptance a conditional one and destroys its negotiability.

There is some doubt in the courts whether the mere reference to a particular consignment of goods makes the bill conditional, some courts stating that it is merely an indication of the fund out of which the drawee is to reimburse himself; other courts holding that it makes the bill conditional because limiting payment to the proceeds of the particular shipment referred to. There is no doubt, however, that a reference, in general terms, on the face of an accepted bill to the fact that it is based on the exportation or importation of goods, would not make it conditional and non-negotiable, and it would not, therefore, be ineligible for discount under the provisions of Section 13 of the Federal Reserve Act.

(Page 21, May, 1915, Bulletin.)

Rediscount of Drafts Payable on Condition.

A draft made "payable on arrival of car" is non-negotiable, not being payable at a determinable future time, and is therefore ineligible for rediscount by a Federal Reserve Bank.

(Page 219, August, 1915, Bulletin.)

Negotiability of Bills of Exchange.

The negotiability of a bill of exchange is not affected by provisions which waive demand, notice, and protest; which waive homestead exemption rights; and which provide for the costs of collection and attorney's fees.

(Page 226, May, 1916, Bulletin.)

Rediscount of the Assignment of Open Accounts.

The assignment of an open account is not negotiable paper and is not eligible for rediscount by a Federal Reserve Bank under the terms of Section 13 of the Federal Reserve Act.

(Page 227, May, 1916, Bulletin.)

Limit on Rediscounts of Commercial or Business Paper.

While a member bank may acquire commercial or business paper from the same person in excess of 10 per cent. of its unimpaired capital and surplus (Sec. 5200, U. S. R. S.), its Federal Reserve Bank can not rediscount such paper bearing the signature or indorsement of the same person in excess of that amount (Sec. 13, Federal Reserve Act).

Section 13, Federal Reserve Act, does not amend Section 5200, United States Revised Statutes.

(Page 274, June, 1916, Bulletin.)

Agricultural Products or Implements.

The purchase or sale of an agricultural product, or of implements or other commodities used in agriculture, constitutes a commercial transaction. Where the proceeds of a note made by a merchant are used to purchase millet seed to be later retailed or sold, such a note can not be treated as one given for an agricultural purpose and can not be discounted by a Federal Reserve Bank if it has a maturity at time of discount of more than 90 days.

(Page 526, October, 1916, Bulletin.)

Promissory Notes of Member Banks.

Member banks in procuring advances from Federal Reserve Banks on promissory notes must secure such notes by paper eligible for rediscount or for purchase by Federal Reserve Banks or by bonds or notes of the United States. County warrants are not eligible as security.

(Page 609, November, 1916, Bulletin.)

Advances to Member Banks.

Eligible paper pledged as security for a promissory note of a member bank on which an advance is being made by a Federal Reserve Bank need not be indorsed by such member bank if such eligible paper is already in negotiable form.

(Page 685, December, 1916, Bulletin.)

Trade Acceptances Based on Advertising Space.

The Federal Reserve Board may properly rule that a draft or bill of exchange drawn by the seller on the purchaser of advertising space and accepted by such purchaser is a trade acceptance.

(Page 116, February, 1917, Bulletin.)

Bills of Exchange Drawn against Actually Existing Values.

A bill of exchange discounted before acceptance may be said to be drawn against actually existing values, within the meaning of Section 13 of the Federal Reserve Act, when and only when it is accompanied by shipping documents, warehouse receipts, or other papers securing title to the goods sold. An accepted bill of exchange, unaccompanied by shipping documents or other such papers, may be considered as drawn against actually existing values if drawn against the drawee at the time of, or within a reasonable time after, the shipment or delivery of the goods sold. In this latter case there must be reasonable grounds to believe that the goods are in existence in the hands of the drawee either in their original form or in the shape of the proceeds of their sale.

(Page 195, March, 1917, Bulletin.)

**Discount of Paper Secured by or Issued for Purposes of Trading in Bonds
or Notes of the United States.**

Any member bank may rediscount with its Federal Reserve Bank a note, draft, or bill drawn for the purpose of carrying or trading in bonds or notes of the United States, and may also procure advances from its Federal Reserve Bank on its own promissory note secured by a deposit of or pledge of bonds or notes of the United States.

(Page 197, March, 1917, Bulletin.)

Drafts Paid on or before a Certain Date.

Drafts payable "ninety days from date or before on five days after demand (i. e., on five days' notice) by the holder hereof" are negotiable and eligible for discount with a Federal Reserve Bank.

(Page 291, April, 1917, Bulletin.)

INFORMAL RULINGS

Differential as to Acceptance.

While a very decided differential may be inadvisable, there is no objection to a moderate differential, say $\frac{1}{4}$ of 1 per cent., to apply between member-bank acceptances and the acceptances of large non-member institutions well known throughout the country and whose acceptances necessarily have a broad market.

(Page 28, January, 1917, Bulletin.)

AGRICULTURAL PAPER

INFORMAL RULINGS.

The limitation of 25 per cent. on loans for agricultural purposes or based on live stock applies only to paper having maturity in excess of 90 days.

(Page 72, June, 1915, Bulletin.)

Live Stock Includes Beef Cattle, Horses, and Mules.

The term "live stock" is held to include not only beef cattle, but also horses and mules.

(Page 72, June, 1915, Bulletin.)

Notes for Fertilizer Eligible.

A farmer's six months' note for commercial fertilizer, discounted and indorsed by a member bank, is agricultural paper eligible for rediscount with the Federal Reserve Bank.

(Page 75, June, 1915, Bulletin.)

Cattle Mortgages Unnecessary.

Mortgages on cattle are not required, and the question whether paper secured by cattle is self-liquidating is a legal one to be determined at the Federal Reserve Bank.

(Page 74, June, 1915, Bulletin.)

The Act does not require the taking of chattel mortgages as security for loans based on agricultural operations. The statement of the member bank to this effect must ordinarily be accepted. The direct, primary purpose of the loan should be for the ordinary operations of agriculture. Words "based on" are not considered synonymous with "secured by." Agricultural paper need not be directly secured by agricultural products, but should be genuinely based on transactions entered upon for agricultural operations. General banking prudence and knowledge should be applied.

(Page 72, June, 1915, Bulletin.)

Note of Dealer Not Eligible.

A note made by a dealer in agricultural implements is not agricultural paper.

(Page 212, August, 1915, Bulletin.)

Cattle, a Readily Marketable Commodity.

Cattle are a readily marketable commodity and a bankers' acceptance secured by a chattel mortgage thereon is eligible for rediscount at a Federal Reserve Bank.

(Page 65, February, 1916, Bulletin.)

Notes for Farm Tools Eligible.

Notes of farmers or consumers given for the purchase price of farm tools, agricultural machinery, or other farm-operating equipment are discountable under Section 13 of the Federal Reserve Act, which provides for notes, bills, or drafts drawn or issued for agricultural purposes.

Presentation of notes of farmers or consumers for the purchase price of farm tools or agricultural machinery by the dealer, with his indorsement for rediscount, does not change their classification as for agricultural purposes.

(Page 67, February, 1916, Bulletin.)

Notes for Dairy Cattle Eligible.

Notes signed by a farmer, the proceeds of which are used for the purchase of cows to be used as dairy cattle, are eligible for rediscount at the discretion of the Federal Reserve Bank notwithstanding the fact that the cattle are not primarily purchased for "breeding, raising, fattening, and marketing of live stock."

(Page 112, March, 1916, Bulletin.)

Exceptions to Section 5200.

The fact that a note or draft discounted by a national bank may be secured by cattle would not of itself bring it within the exceptions to Section 5200, Revised Statutes, unless it is commercial or business paper actually owned by the person negotiating the same or unless it is a bill of exchange drawn in good faith against actually existing values.

(Page 329, July, 1916, Bulletin.)

Amounts Rediscounted.

Amounts of cattle paper discounted at Federal Reserve Banks are not available without special report. The banks at Dallas and Kansas City take more of this paper than any others.

(Page 395, August, 1916, Bulletin.)

Cattle for Breeding, Grazing, or Fattening, as Security.

Loans on cattle for breeding, grazing, or fattening may be made under the classification of six months' agricultural paper and the paper may be rediscounted by a member bank at its Federal Reserve Bank.

(Page 679, December, 1916, Bulletin.)

COMMODITY PAPER

Includes Paper of Merchants and Others.

“Commodity paper” includes not only paper originating with the producer, but also paper of merchants and others when the commodity is not carried for speculative or purely investment purposes.

(Page 307, October, 1915, Bulletin.)

Potatoes Not Non-perishable.

Potatoes are not a non-perishable product and are, therefore, not acceptable as security for commodity loans.

(Page 406, December, 1915, Bulletin.)

Purchases from Member Banks.

Purchases by Federal Reserve Banks from member banks of commodity loans without the member banks' indorsement would not be open market purchases, because such commodity loans are in the form of ordinary promissory notes or one-name paper.

(Page 406, December, 1915, Bulletin.)

Profits of Member Banks.

There is an apparent profit to a member bank of 3 per cent. on a transaction in commodity paper where the loan is made by the member bank at 6 per cent. and the discount rate of the Federal Reserve Bank is 3 per cent.

(Page 406, December, 1915, Bulletin.)

Mercantile Firms Can Not Discount with Federal Reserve Banks.

Federal Reserve Banks can not discount commodity paper directly for mercantile firms.

(Page 112, March, 1916, Bulletin.)

INFORMAL RULINGS AS TO PAPER OTHER THAN AGRICULTURAL OR COMMODITY

Paper of Finance Companies Ineligible.

The Board holds that collateral trust notes of so-called finance companies should not be accepted by Federal Reserve Banks for rediscount. Such a transaction is not a commercial one.

(Page 72, June, 1915, Bulletin.)

Direct Notes of Non-member Banks Ineligible.

Notes of non-member banks, if direct, can not be re-discounted.

(Page 72, June, 1915, Bulletin.)

Conditions as to Cotton-Mill Paper.

Banks are authorized to discount cotton-mill paper indorsed by member banks where general conditions are satisfactory and statement of cotton mill shows that the plant is not mortgaged and that the deficiency between capital and plant account does not amount to more than \$5 per spindle.

(Page 73, June, 1915, Bulletin.)

Discount of Notes Renewed.

Renewals differ, and banking judgment determines the merits of each particular case. Those providing working capital or capital to finance fixed investments are not eligible for rediscount. On the other hand, self-liquidating paper, even though the transaction which gives rise to it does not liquidate itself within the 90-day maturity, might be discounted even though it appears to be renewal

paper. Banks should not enter into an agreement for a renewal. Care should be exercised in examining such paper and the transactions which give rise to it, but mechanical rules should not be allowed to take the place of discriminating banking judgment.

(Page 74, June, 1915, Bulletin.)

Undivided Interests Not Security.

An undivided interest in property is not regarded as advisable security for paper to be rediscounted.

(Page 75, June, 1915, Bulletin.)

Bills Receivable Satisfactory Collateral.

The note of a manufacturer secured by his bills receivable is desirable paper, and should certainly not be debarred as a collateral trust note. When issued for the purpose of carrying collateral for a speculative purpose or collateral in the nature of stocks and bonds other than the securities of the United States, the note would not be eligible for rediscount.

(Page 127, July, 1915, Bulletin.)

Manufactured Pig Iron Good Security.

The note of a furnace company secured by pig iron manufactured by the company on contract for delivery is eligible for rediscount. While this principle generally holds good, each case should be carefully scrutinized that the collateral may be readily marketable goods.

(Page 127, July, 1915, Bulletin.)

Notes of Mule and Cattle Dealers Mercantile Paper.

Notes made by mule and cattle dealers are mercantile rather than agricultural paper.

(Page 212, August, 1915, Bulletin.)

Financial Statements.

The option in respect to waiving requirement that a borrower's financial statement shall be on file rests with the member bank.

(Page 213, August, 1915, Bulletin.)

Non-member Bank Rediscounts Left to Federal Reserve Banks.

The question whether a Federal Reserve Bank may rediscount for non-member banks must be left very largely to the judgment and discretion of officers of each Federal Reserve Bank and to the determination reached by them on the facts in each case.

(Page 213, August, 1915, Bulletin.)

Crossties and Lumber Good Security.

Bills drawn for the purpose of providing funds to export crossties and lumber to Cuba are eligible for rediscount if properly indorsed and otherwise conforming to the regulations of the Federal Reserve Board. Such paper, it is presumed, would take the 90-day rate.

(Page 268, September, 1915, Bulletin.)

Collateral Notes.

Notes secured by collateral the proceeds of which are used for the purchase of merchandise in the due course of business are eligible paper for rediscount. The fact that notes have the additional security of collateral in no way affects their eligibility.

(Page 268, September, 1915, Bulletin.)

The fact that commercial paper has the additional security of collateral in no way affects its eligibility for rediscount.

(Page 268, September, 1915, Bulletin.)

Eligibility of Notes.

Notes, the proceeds of which have been used or are to be used for commercial purposes, otherwise complying with the regulations, are eligible for rediscount.

(Page 268, September, 1915, Bulletin.)

Rebates of Discount.

Rebates of discount are to be given only when some good reason arises for such action.

(Page 308, October, 1915, Bulletin.)

Rediscounts to a Reopened Insolvent Bank.

The Board upholds a Federal Reserve Bank in declining to give assurance to the receiver of an insolvent member bank that the Federal Reserve Bank will, upon the reopening of the insolvent bank, rediscount eligible paper freely, without requiring the indorsement of directors or other additional security. Offerings should be considered upon their merits.

(Page 66, February, 1916, Bulletin.)

Section 5202, Revised Statutes.

Under Section 5202, Revised Statutes, a national bank may not borrow as bills payable in excess of its capital stock. Under the Federal Reserve Act it may rediscount actual items of paper in its possession to any amount in the discretion of the Federal Reserve Bank of its district.

(Page 112, March, 1916, Bulletin.)

Limit on Cotton-Mill Paper.

No national bank or member bank could discount an aggregate of more than 10 per cent. of its capital and surplus in the notes of a cotton broker purchasing cotton for various mills and financing the same with his note secured by warehouse receipt of the mill, indorsed in blank for cotton stored in his own name and insured, to sell to the mill for a specified amount to be paid at a stated time.

(Page 113, March, 1916, Bulletin.)

Limit of 10 Per Cent. to One Maker or Indorser.

If any particular paper presented by a member bank to a Federal Reserve Bank for rediscount, singly or added to the paper of the same makers or indorsers which the Federal Reserve Bank has already rediscounted for said member bank, amounts to a total of more than 10 per cent. of the unimpaired capital and surplus of that bank, the Federal Reserve Bank has no authority for such rediscount.

(Page 224, May, 1916, Bulletin.)

Loans Not Made Directly to Individuals.

Federal Reserve Banks do not make loans directly to individuals, but rediscount the paper of member banks which include all national banks and such State banks as may have joined the Federal Reserve System.

(Page 272, June, 1916, Bulletin.)

Rediscounts Are for Face Value.

Paper of member banks is rediscounted by Federal Reserve Banks for its face value and without compensation.

(Page 272, June, 1916, Bulletin.)

Notes "on or before" Eligible.

Notes payable "on or before" a certain date are eligible for rediscount with Federal Reserve Banks provided they conform to the law and regulations of the Board in other respects.

(Page 394, August, 1916, Bulletin.)

Proceeds of a Note.

Mode of determining proceeds of a note discounted by Federal Reserve Bank.

(Page 456, September, 1916, Bulletin.)

Ten Per Cent. Limitation Does Not Apply to Bills of Exchange.

The aggregate of eligible notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted by a Federal Reserve Bank for a non-member bank shall at no time exceed 10 per cent. of the unimpaired capital and surplus of such member bank. This restriction does not apply to bills of exchange drawn in good faith against actually existing values.

(Page 457, September, 1916, Bulletin.)

No Limit on Rediscounts of Commercial Paper for Any One Bank.

The law places no limitation upon the amount of commercial paper which a member bank may rediscount with a Federal Reserve Bank, but leaves this to the judgment of the officers of the Federal Reserve Bank.

(Page 457, September, 1916, Bulletin.)

"Staples" Defined.

"Staples" in the meaning of Regulation Q, series of 1915, include manufactured goods as well as raw materials, provided the goods are non-perishable and have a wide ready market. This is held to include cotton yarns and flour.

(Page 523, October, 1916, Bulletin.)

Indorsement on Waiver of Demand, Notice, and Protest.

Simple written indorsement is considered sufficient in connection with a waiver of demand, notice, and protest as to its own indorsement exclusively on the part of a member bank.

(Page 524, October, 1916, Bulletin.)

Government Does Not Fix Interest Rate of Member Bank.

The Government does not fix the rate of interest which national banks may charge upon loans, but does approve the rate of rediscount at which paper may be rediscounted at Federal Reserve Banks.

(Page 679, December, 1916, Bulletin.)

Acceptances against Bullion.

Gold bars may be properly considered as goods, and accordingly 60-day bills when accepted by banks and bankers against such a shipment would be eligible for purchase by Federal Reserve Banks as based upon or involving the exportation of goods.

(Page 29, January, 1917, Bulletin.)

Bills Drawn against Coin.

Gold coin is "goods" within the meaning of Section 13 of the Federal Reserve Act, and, therefore, a bill of exchange drawn to finance a shipment of gold coin from this country is eligible for purchase by a Federal Reserve Bank if otherwise in conformity with the provisions of the law and the regulations of the Federal Reserve Board.

(Page 29, January, 1917, Bulletin.)

ACCEPTANCES

[From Federal Reserve Bulletin, July 1, 1917]

Acceptances bought in open market and held by Federal Reserve Banks as per schedules on file with the Federal Reserve Board on dates specified, distributed by classes of accepting institutions.

Date.	Banker's acceptances.						Trade acceptances bought in open market.	Total acceptances.
	Member banks.	Nonmember trust companies.	Nonmember State banks.	Private banks.	Foreign bank branches and agencies.	Total.		
1915.								
Feb. 22.....	\$93,000					\$93,000		\$93,000
Apr. 5.....	3,653,000	\$7,820,000	\$10,000	\$110,000		11,593,000		11,593,000
May 3.....	5,038,000	8,189,000	10,000	110,000		13,347,000		13,347,000
June 7.....	5,222,000	4,515,000	10,000	122,000		9,869,000		9,869,000
July 3.....	4,342,000	5,267,000		161,000		9,770,000		9,770,000
Aug. 2.....	5,350,000	5,407,000	20,000	352,000		11,129,000		11,129,000
Sept. 6.....	6,087,000	6,305,000	20,000	472,000		12,884,000		12,884,000
Oct. 4.....	9,000,000	4,888,000	132,000	345,000		14,375,000		14,375,000
Nov. 1.....	8,477,000	4,331,000	253,000	204,000		13,265,000		13,265,000
Dec. 6.....	12,311,000	5,172,000	275,000	306,000		18,154,000		18,154,000
1916.								
Jan. 3.....	15,494,000	7,160,000	362,000	822,000		23,838,000		23,838,000
Feb. 7.....	15,681,000	7,876,000	336,000	1,466,000		25,349,000	\$489,000	25,838,000
Mar. 6.....	17,132,000	8,570,000	498,000	1,791,000		28,041,000	462,000	28,503,000
Apr. 3.....	21,000,000	13,573,000	473,000	3,252,000		38,308,000	722,000	39,030,000
May 1.....	24,875,000	15,400,000	585,000	3,430,000		44,280,000	1,477,000	45,767,000
June 5.....	24,680,000	17,029,000	644,000	1,007,000		49,360,000	2,208,000	51,568,000
July 3.....	32,988,000	15,921,000	471,000	11,830,000		60,310,000	3,422,000	63,732,000
Aug. 7.....	39,695,000	19,060,000	738,000	13,940,000		73,433,000	4,225,000	77,658,000
Sept. 4.....	41,413,000	20,356,000	726,000	12,491,000		74,986,000	3,678,000	78,664,000
Oct. 2.....	37,798,000	21,782,000	712,000	9,944,000		70,238,000	2,306,000	72,544,000
Nov. 6.....	37,770,000	29,474,000	1,014,000	12,147,000		80,405,000	2,378,000	82,783,000
Dec. 4.....	47,748,000	33,222,000	1,630,000	16,069,000		98,679,000	4,467,000	103,146,000
1917.								
Jan. 1.....	66,803,000	34,625,000	1,502,000	18,224,000		121,154,000	4,856,000	125,739,000
Feb. 5.....	50,361,000	23,511,000	972,000	13,775,000	\$140,000	88,759,000	4,041,000	92,800,000
Mar. 5.....	53,288,000	32,518,000	1,090,000	20,881,000	354,000	107,837,000	2,535,000	110,362,000
Apr. 2.....	43,679,000	20,328,000	689,000	16,830,000	201,000	82,026,000	1,144,000	83,170,000
May 7.....	49,182,000	19,650,000	236,000	19,177,000	94,000	88,349,000	1,676,000	90,025,000
May 14.....	56,294,000	24,383,000	385,000	13,917,000	117,000	100,096,000	1,056,000	101,152,000
May 21.....	59,105,000	25,316,000	320,000	19,322,000	136,000	102,609,000	3,077,000	105,726,000
May 28.....	62,698,000	23,441,000	525,000	19,912,000	225,000	107,069,000	2,777,000	109,846,000
June 4.....	69,282,000	27,611,000	584,000	21,077,000	293,000	118,773,000	3,022,000	121,795,000
June 11.....	81,116,000	32,043,000	946,000	22,604,000	239,000	137,028,000	3,723,000	140,751,000
June 18.....	103,914,000	38,776,000	1,296,000	22,860,000	1,801,000	163,547,000	3,611,000	172,158,000

Amounts of bills discounted and acceptances and warrants bought by each Federal Reserve Bank during May, 1917, distributed by maturities.

Banks.	15-day maturities.				30-day maturities.			
	Discounts.	Acceptances.	Warrants.	Total.	Discounts.	Acceptances.	Warrants.	Total.
Boston.....	\$3,400,345	\$1,037,734	.....	\$10,581,129	\$428,929	\$1,131,498	.....	\$1,560,427
New York.....	8,201,947	769,340	.....	6,868,287	49,873	3,491,361	.....	3,541,234
Philadelphia.....	18,545,096	.....	.....	18,545,096	1,283,516	1,601,582	.....	2,785,098
Cleveland.....	4,415,331	.....	.....	4,416,331	175,775	235,922	.....	411,697
Richmond.....	20,352,512	73,693	.....	20,426,205	935,616	2,086,000	.....	3,021,616
Atlanta.....	1,392,538	55,000	.....	1,447,538	421,469	231,500	.....	788,499
Chicago.....	2,477,450	500,000	.....	2,977,450	258,174	258,546	.....	516,720
St. Louis.....	2,243,946	86,205	.....	2,330,150	691,898	210,000	.....	910,898
Minneapolis.....	1,011,110	.....	.....	1,011,110	229,678	235,000	.....	455,678
Kansas City.....	2,931,827	.....	.....	2,931,827	344,136	.....	.....	344,136
Dallas.....	841,205	.....	.....	841,205	84,580	30,000	.....	94,580
San Francisco.....	50,254	185,252	.....	236,506	114,623	77,114	.....	191,737
Total.....	69,958,620	2,755,184	.....	72,713,804	4,990,467	9,585,123	25,500	14,501,090
Percent.....	.....	.....	.....	41.8	.....	.....	.....	8.4

Banks.	60-day maturities.				90-day maturities.			
	Discounts.	Acceptances.	Warrants.	Total.	Discounts.	Acceptances.	Warrants.	Total.
Boston.....	\$445,923	\$1,126,837	.....	\$1,572,460	\$304,332	\$5,026,236	.....	\$5,990,618
New York.....	164,070	1,248,268	.....	1,412,338	138,353	16,594,187	.....	16,732,570
Philadelphia.....	388,565	1,442,411	.....	1,830,976	288,424	2,507,687	.....	2,796,111
Cleveland.....	161,618	1,152,003	.....	1,313,621	170,213	5,660,161	2,040	5,832,444
Richmond.....	1,621,738	1,241,362	.....	2,863,100	1,741,247	462,646	.....	2,203,893
Atlanta.....	753,548	568,802	\$1,900	1,324,010	396,884	238,828	.....	605,712
Chicago.....	199,024	5,063,182	.....	5,262,206	149,613	5,304,037	.....	5,453,550
St. Louis.....	1,423,881	1,224,405	.....	2,648,286	1,551,656	2,670,403	.....	4,122,059
Minneapolis.....	1,355,648	145,043	.....	1,700,691	466,491	571,005	.....	1,037,497
Kansas City.....	835,915	1,367,146	.....	1,740,061	290,778	2,121,033	.....	2,321,811
Dallas.....	427,308	155,174	.....	582,482	310,322	350,116	.....	660,438
San Francisco.....	132,390	2,875,278	.....	3,007,668	125,995	1,542,439	.....	1,668,434
Total.....	7,576,418	17,270,971	1,500	24,848,889	6,424,188	43,938,859	2,040	50,385,087
Percent.....	.....	.....	.....	14.3	.....	.....	.....	28.8

Banks.	Over 90-day maturities.				Total.				Percent.			
	Discounts.	Acceptances.	Warrants.	Total.	Discounts.	Acceptances.	Warrants.	Total.	Discounts.	Acceptances.	Warrants.	Total.
Boston.....	\$200	\$845,408	.....	\$345,608	\$11,302,429	\$10,217,813	.....	\$21,520,242	52.6	47.4	.....	100.0
New York.....	8,748,849	\$30,437	6,799,286	6,515,273	28,536,695	\$30,437	35,435,315	18.5	81.3	0.2	.....	100.0
Philadelphia.....	9,529	232,379	29,219	294,627	20,445,040	5,094,559	29,219	25,578,818	78.0	20.9	0.1	100.0
Cleveland.....	380,013	10,225	390,238	4,923,937	7,428,129	12,265	12,364,331	39.8	60.1	0.1	.....	100.0
Richmond.....	424,852	10,270	435,122	25,076,795	3,873,881	.....	28,090,670	86.6	13.4	.....	.....	100.0
Atlanta.....	265,068	35,950	301,916	3,303,525	1,218,060	27,000	4,447,565	72.0	27.3	0.7	.....	100.0
Chicago.....	130,908	.....	130,908	2,215,069	11,962,765	.....	14,277,834	22.6	77.8	.....	.....	100.0
St. Louis.....	37,742	424,437	462,179	5,919,072	4,524,450	.....	13,473,522	58.5	43.2	.....	.....	100.0
Minneapolis.....	538,469	.....	3,792,395	951,049	.....	.....	4,743,445	70.0	20.1	.....	.....	100.0
Kansas City.....	407,102	305,853	712,045	4,236,848	3,614,032	.....	8,050,880	53.9	46.1	.....	.....	100.0
Dallas.....	629,674	39,800	669,474	2,273,089	573,090	.....	2,846,172	70.8	20.2	.....	.....	100.0
San Francisco.....	27,148	.....	27,148	450,600	4,681,083	.....	5,131,683	8.8	91.2	.....	.....	100.0
Total.....	2,473,780	9,038,359	89,881	11,002,020	91,413,473	82,588,496	115,921	174,120,890	52.5	47.0	0.5	100.0
Percent.....	.....	.....	.....	6.7	.....	.....	.....	100.0	.....	.....	.....	.....

Maturities of discounts, acceptances, and municipal warrants held by the Federal Reserve Banks on Friday, May 25, 1917.

[In thousands of dollars; i. e., 000 omitted.]

Banks.	1 to 15 days.				15 to 30 days.			
	Bills discounted.	Acceptances bought.	Municipal warrants.	Total.	Bills discounted.	Acceptances bought.	Municipal warrants.	Total.
Boston.....	1,935	3,720	127	5,783	335	744	.....	1,079
New York.....	345	4,436	3,647	8,428	80	2,599	1,015	3,685
Philadelphia.....	6,872	2,245	1,013	10,130	909	3,707	254	4,870
Cleveland.....	2,758	887	1,274	4,919	100	1,239	355	1,695
Richmond.....	4,015	2,520	.....	6,535	1,363	1,100	.....	2,523
Atlanta.....	1,211	809	1	2,021	537	633	30	1,200
Chicago.....	2,020	1,200	1,272	4,492	606	1,190	762	2,558
St. Louis.....	1,580	609	577	2,766	474	412	254	1,140
Minneapolis.....	1,603	630	177	2,410	824	362	.....	1,186
Kansas City.....	1,745	136	25	1,906	281	101	355	737
Dallas.....	934	96	437	1,467	643	101	51	795
San Francisco.....	299	1,207	303	1,809	211	4,759	303	4,273
Total.....	25,348	18,495	8,853	52,696	5,363	16,007	3,385	25,755
Per cent.....	.....	.....	.....	81.1	.....	.....	.....	16.1

Banks.	31 to 60 days.				61 to 90 days.			
	Bills discounted.	Acceptances bought.	Municipal warrants.	Total.	Bills discounted.	Acceptances bought.	Municipal warrants.	Total.
Boston.....	595	2,842	.....	3,437	597	4,708	.....	5,305
New York.....	163	15,633	254	16,100	63	12,062	112	12,237
Philadelphia.....	363	5,014	.....	5,377	147	1,848	152	2,147
Cleveland.....	140	3,754	5	3,899	12	4,414	217	4,643
Richmond.....	2,037	1,772	.....	3,809	973	1,170	15	1,158
Atlanta.....	962	480	.....	1,442	239	243	.....	482
Chicago.....	280	2,984	.....	3,264	172	3,755	152	4,079
St. Louis.....	1,175	2,195	109	3,471	597	1,835	112	2,504
Minneapolis.....	2,177	777	.....	2,954	388	507	.....	895
Kansas City.....	417	1,472	.....	1,889	158	1,376	51	1,585
Dallas.....	969	412	.....	1,381	254	271	20	545
San Francisco.....	188	3,954	.....	4,142	102	296	203	601
Total.....	9,466	41,340	369	51,165	3,612	31,535	1,034	36,181
Per cent.....	.....	.....	.....	30.2	.....	.....	.....	21.3

Banks.	Over 90 days.				Total.				Percentages.			
	Bills discounted.	Acceptances bought.	Municipal warrants.	Total.	Bills discounted.	Acceptances bought.	Municipal warrants.	Total.	Bills discounted.	Acceptances bought.	Municipal warrants.	Total.
Boston.....	.....	.....	.....	3,463	12,014	127	15,604	9.2	22.2	77.0	0.8	100.0
New York.....	.....	.....	.....	651	34,780	5,029	40,460	23.7	1.6	85.9	12.6	100.0
Philadelphia.....	.....	.....	.....	8,296	12,814	1,422	22,532	13.2	36.8	56.9	6.3	100.0
Cleveland.....	9	.....	1,043	3,049	10,294	2,895	16,238	9.5	18.7	63.4	17.9	100.0
Richmond.....	384	.....	.....	5,772	5,622	15	14,409	8.5	60.8	39.1	1	100.0
Atlanta.....	379	.....	.....	3,225	2,165	31	5,524	3.6	60.2	39.2	6	100.0
Chicago.....	157	.....	.....	3,203	9,129	2,186	14,550	8.6	22.2	62.7	15.1	100.0
St. Louis.....	70	.....	.....	3,806	5,102	1,043	9,951	5.9	38.2	51.3	10.5	100.0
Minneapolis.....	625	.....	.....	5,617	2,276	177	5,070	4.7	69.6	28.2	2.2	100.0
Kansas City.....	369	.....	.....	396	2,967	3,085	421	6,483	3.8	45.7	47.6	100.0
Dallas.....	764	.....	.....	3,564	880	568	4,952	2.9	72.0	17.8	10.2	100.0
San Francisco.....	39	.....	.....	839	9,216	811	10,566	6.4	7.7	84.8	7.5	100.0
Total.....	2,798	.....	1,046	3,844	47,587	107,577	14,675	169,639	100.0	23.1	63.2	100.0
Per cent.....	.....	.....	.....	2.3	.....	.....	.....	.....	.....	.....	.....	.....

Bills discounted by each Federal Reserve Bank during May, 1917, distributed by sizes.

NUMBER OF PIECES AND AMOUNTS.

Banks.	To \$100.		Over \$100 to \$500.		Over \$500 to \$1,000.		Over \$1,000 to \$2,500.		Over \$2,500 to \$5,000.		Over \$5,000 to \$10,000.		Over \$10,000.		Total.		Per cent.
	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	Number of pieces.	Amount.	
Boston.....	1	\$100.	25	\$4,493.	61	\$25,896.	82	\$95,203.	95	\$171,001.	295	\$976,007.	139	\$338,109.	131	\$5,688,018.	20.4
New York.....	3	300.	37	6,789.	69	28,656.	41	24,914.	61	97,227.	36	879,923.	60	2,831,306.	60	2,831,306.	396
Philadelphia.....	429	21,632.	165	28,187.	113	41,347.	90	76,510.	205	416,801.	107	293,342.	107	951,437.	59	2,396,764.	14.8
Cleveland.....	134	10,066.	264	48,668.	439	173,936.	496	402,404.	477	845,873.	35	235,289.	35	318,408.	44	1,657,681.	14.1
Richmond.....	99	7,182.	283	49,789.	167	94,322.	145	102,494.	477	945,963.	70	1,467,048.	70	1,467,048.	2,402	5,737,245.	14.1
Atlanta.....	17	1,683.	76	13,239.	80	40,718.	49	31,728.	73	147,569.	83	300,141.	28	228,550.	27	666,676.	1.101
Chicago.....	6	401.	53	9,105.	80	31,996.	131	96,731.	78	155,507.	208	1,006,006.	100	942,192.	82	774,059.	3.55
St. Louis.....	26	1,855.	214	37,210.	250	91,336.	173	114,669.	131	293,322.	154	677,330.	59	546,554.	40	2,235,223.	691
Minneapolis.....	73	5,428.	403	65,157.	290	108,313.	211	149,625.	93	140,002.	49	103,551.	22	170,944.	27	291,569.	729
Kansas City.....	6	401.	53	9,105.	80	31,996.	131	96,731.	78	155,507.	208	1,006,006.	100	942,192.	82	774,059.	3.55
Dallas.....	6	401.	53	9,105.	80	31,996.	131	96,731.	78	155,507.	208	1,006,006.	100	942,192.	82	774,059.	3.55
San Francisco.....	6	401.	53	9,105.	80	31,996.	131	96,731.	78	155,507.	208	1,006,006.	100	942,192.	82	774,059.	3.55
Total.....	791	48,892.	1,506	289,503.	1,655	633,043.	1,310	1,151,829.	1,657	2,918,131.	1,706	8,072,211.	780	7,299,819.	609	20,170,294.	10.314
Per cent.....	0.1	0.1	0.7	0.7	1.6	1.6	2.8	7.2	8	131.000.	18.0	49.7	226	50,138,080.	233	50,860,080.	100.0
Member banks' collateral notes.....																	

Total investment operations, exclusive of purchases of United States certificates of indebtedness, of each Federal Reserve Bank during the months of May, 1917 and 1916, and the five months ending May, 1917 and 1916.

Federal Reserve Banks.	Bills discounted for member banks.	Bills bought in open market.			Municipal warrants bought.			
		Bankers' acceptances.	Trade acceptances.	Total.	City.	State.	All other.	Total.
Boston	\$11,392,429	\$10,217,813		\$10,217,813				
New York	6,645,273	28,441,789	\$397,846	28,839,605	\$50,437			\$50,437
Philadelphia	20,445,040	5,358,561	48,908	5,407,509	25,219			25,219
Cleveland	4,923,937	7,233,979	194,150	7,428,129			12,265	12,265
Richmond	25,076,795	3,873,881		3,873,881				
Atlanta (including New Orleans branch)	3,202,823	1,213,000		1,213,000			27,000	27,000
Chicago	3,215,939	10,949,443		113,322	11,052,765			
St. Louis	5,949,072	4,524,450		4,524,450				
Minneapolis	3,782,346	951,049		951,049				
Kansas City	4,239,948	3,814,032		3,814,032				
Dallas	2,273,039	573,030		573,030				
San Francisco	450,000	2,246,508	2,434,575	4,681,083				
Total May, 1917	91,413,473	79,309,605	3,183,501	82,688,496	75,656		43,265	118,921
Total May, 1916	11,105,500	20,990,900	920,600	21,911,500	6,774,800	2,187,300	17,100	8,979,200
Total 5 months ending May, 1917	208,910,430	237,260,408	6,046,578	243,307,064	14,364,057	2,040	947,235	15,013,392
Total 5 months ending May, 1916	50,883,900	82,219,300	3,049,700	85,348,000	16,197,000	2,650,200	150,100	50,022,800

Federal Reserve Banks.	United States bonds and Treasury notes.					Total investment operations.		Per cent.	
	2 per cent.	3 per cent.	4 per cent.	1 year notes.	Total.	May, 1917.	May, 1916.	May, 1917.	May, 1916.
Boston						\$21,520,242	\$6,242,100	12.3	12.9
New York						35,435,315	8,131,200	20.3	16.8
Philadelphia						25,879,819	6,662,000	14.9	13.6
Cleveland						12,351,331	4,702,000	7.1	9.8
Richmond						23,950,676	3,798,200	16.0	7.9
Atlanta (including New Orleans branch)						4,447,965	2,202,000	2.6	4.6
Chicago						14,277,534	4,585,500	8.2	8.6
St. Louis						10,370,322	2,384,000	6.0	5.8
Minneapolis		\$2,000			\$2,000	1,745,445	2,503,700	2.7	5.2
Kansas City	\$50,000				50,000	8,160,880	2,143,200	4.6	4.6
Dallas						2,846,179	1,813,000	1.6	3.8
San Francisco	50,000	2,000			52,000	5,185,683	2,088,700	3.4	6.0
Total May, 1917	100,000	4,000			104,000	174,224,800		100.0	100.0
Total May, 1916	5,618,100	225,600	\$230,000		6,113,600		\$8,109,700		
Total 5 months ending May, 1917	14,947,290	118,400	25,250		\$3,538,000	17,748,800	484,679,190		
Total 5 months ending May, 1916	33,621,100	3,167,830	4,108,000	50,000	40,956,980		227,222,180		

United States bonds, notes, and certificates of indebtedness held by each Federal Reserve Bank on May 31, 1917, distributed by maturities.

Bank.	United States bonds with circulation privilege.				United States securities without circulation privilege.				Total.
	2 per cent consols of 1930.	2 per cent Pinks of 1930-33.	3 per cent loan of 1915.	4 per cent loan of 1925.	Certificates of indebtedness.		3 per cent conversion bonds of 1940-47.	3 per cent 1-year notes.	
					2 per cent.	3 and 3½ per cent.		3 per cent loan of 1901.	
Boston	\$750				\$3,000,000		\$529,000	\$2,194,000	\$5,723,750
New York	50		\$50,000		23,000,000	\$375,000	1,255,500	2,788,000	24,471,550
Philadelphia		\$100			3,500,000		549,200	2,649,000	6,697,300
Cleveland	6,400	467,200	2,586,560	\$2,253,200	3,500,000		414,800	1,885,000	11,209,160
Richmond	915,100	237,000			2,000,000			1,093,000	5,121,100
Atlanta	60,600	21,000			1,500,000	1,693,000	10,200	1,491,000	4,755,600
Chicago	1,862,600	367,500	2,681,000	1,768,000	5,000,000		427,400	2,083,000	15,645,600
St. Louis	100		1,080,000		2,500,000		1,153,300	1,444,000	6,177,400
Minneapolis	323,000	16,200	1,196,180	206,250	5,000,000		114,800	1,240,000	500
Kansas City	7,155,800	27,200		825,000	2,500,000		638,600	1,784,000	13,120,500
Dallas	2,434,600	294,500			2,000,000		1,430,000		8,301,000
San Francisco	2,428,750				2,500,000	1,544,000		1,500,000	7,072,750
Total	15,784,050	1,412,800	7,493,740	5,168,450	50,000,000	4,479,000	6,626,400	22,338,000	114,203,140

Total United States bonds with circulation privilege, \$26,558,540. Total United States securities without circulation privilege, \$34,344,300.

Bills discounted during the month of May, 1917, and 1916, and the five months ending May, 1917, and 1916, distributed by classes.

Banks.	Collateral notes secured by U. S. certificates.	Collateral notes secured by commercial paper.	Trade acceptances.	Commodity paper.	All other discounts.	Total.
Boston.....	\$40,000	\$2,990,000	\$599,388	.....	\$7,746,041	\$11,302,429
New York.....	40,000	2,037,000	117,000	.....	4,251,273	6,545,273
Philadelphia.....	\$80,000	14,319,000	25,758	.....	5,190,282	20,445,040
Cleveland.....	550,000	2,170,000	28,564	.....	2,175,373	4,923,937
Richmond.....	50,000	19,289,580	365,140	\$468,420	4,963,079	25,078,708
Atlanta.....	10,000	914,000	196,334	249,034	1,834,557	3,202,925
Chicago.....	415,000	1,230,000	43,387	.....	1,528,682	3,215,069
St. Louis.....	.....	1,520,000	414,446	15,000	5,999,024	5,940,072
Minneapolis.....	575,000	300,325	.....	.....	2,917,071	3,792,396
Kansas City.....	2,491,000	270,000	86,126	131,667	1,348,055	4,236,848
Dallas.....	225,000	599,265	9,417	.....	1,442,467	2,273,389
San Francisco.....	.....	.....	18,154	.....	434,466	452,620
Total May, 1917.....	5,181,000	45,686,080	1,767,702	864,121	37,931,570	91,413,473
Total May, 1916.....	.....	.....	298,300	889,400	9,977,700	11,185,400
Total January-May, 1917.....	.....	102,011,570	4,615,612	4,979,438	97,503,801	208,910,430
Total January-May, 1916.....	.....	.....	1,527,500	7,647,400	41,705,900	50,880,900

Amounts of discounted paper, including member banks' collateral notes, held by each Federal reserve bank on the last Friday in May, 1917, distributed by classes.

Banks.	Agricultural paper.	Live-stock paper.	Commercial and industrial paper.	Member banks' collateral notes.	Total.	Banks.	Agricultural paper.	Live-stock paper.	Commercial and industrial paper.	Member banks' collateral notes.	Total.
Boston.....	.....	.....	\$2,797,699	\$635,000	\$3,432,699	Minneapolis.....	\$477,363	\$333,392	\$4,118,999	\$385,325	\$5,617,079
New York.....	\$98,089	.....	365,181	227,000	691,270	Kansas City.....	224,432	673,091	674,357	1,495,000	2,968,880
Philadelphia.....	174,289	.....	2,618,625	6,127,000	8,945,884	Dallas.....	705,456	1,341,570	1,085,060	3,455,000	5,664,978
Cleveland.....	29,140	\$25,346	624,274	2,370,000	3,049,760	San Francisco.....	131,027	45,746	662,503	.....	839,276
Richmond.....	654,654	3,330	5,896,671	2,307,000	8,771,715	Total.....	3,542,350	3,154,213	24,547,146	16,344,375	47,588,087
Atlanta.....	354,964	221,970	2,167,400	584,000	3,228,334	Per cent.....	7.4	6.6	51.6	34.4	100.0
Chicago.....	687,327	12,596	1,901,696	733,000	3,295,625						
St. Louis.....	166,207	195,178	2,424,751	1,020,000	3,806,136						

Distribution, by sizes, of bills bought in open market by all Federal Reserve Banks during May, 1917, and the five months ending May, 1917 and 1916.

Acceptances bought in open market.	To \$5,000.		To \$10,000.		To \$25,000.		To \$50,000.		To \$100,000.		Over \$100,000.		Total.		Per cent.
	Pieces.	Amount.	Pieces.	Amount.	Pieces.	Amount.	Pieces.	Amount.	Pieces.	Amount.	Pieces.	Amount.	Pieces.	Amount.	
Bankers' acceptances.....	1,274	\$3,480,477	852	\$6,728,251	1,544	\$27,264,419	428	\$18,193,862	172	\$15,127,679	42	\$3,605,617	4,317	\$79,399,638	96.1
Trade acceptances.....	31	99,907	38	299,502	36	570,608	14	487,884	4	250,424	1	1,492,568	127	\$3,188,891	3.9
Total, May, 1917.....	1,305	3,571,384	890	7,027,753	1,580	27,835,027	442	18,681,746	181	15,377,503	46	10,098,085	4,444	82,588,499	100.0
Per cent.....	4.3	.....	8.5	.....	53.8	.....	22.7	.....	12.3	.....	1.2	.....	12.3	.....	.....
April, 1917.....	748	1,589,089	270	2,147,350	647	12,231,092	257	11,093,129	87	7,155,097	38	6,186,816	2,047	41,312,591	.....
March, 1917.....	389	876,506	175	1,381,029	353	6,976,406	171	7,185,125	89	6,801,912	25	4,930,680	1,209	29,151,638	.....
February, 1917.....	819	2,175,639	777	6,324,016	1,248	22,367,962	401	16,483,974	180	15,273,481	49	8,012,103	4,474	70,637,179	.....
January, 1917.....	390	1,025,210	430	1,706,959	300	5,208,298	155	6,809,412	43	3,591,515	11	1,826,768	384	20,917,189	.....
Total, 5 months ending May, 1917.....	3,651	9,235,825	2,595	18,583,249	4,138	75,648,691	1,423	60,232,377	532	48,459,508	169	31,087,424	12,553	243,307,694	.....
Total, 5 months ending May, 1916.....	1,353	4,138,784	1,113	9,072,806	1,394	25,621,025	407	15,387,063	194	16,468,221	71	14,660,078	4,532	85,347,977	.....

* Of the above amount, bankers' acceptances totaling \$71,555,468 were based on imports and exports and \$7,541,187 on domestic trade transactions.

** All of the above trade acceptances were drawn abroad on importers in the United States and indorsed by foreign banks.

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National Bank of Commerce in New York

ORGANIZED 1839

President

James S. Alexander

Vice-Presidents

R. G. Hutchins, Jr.

Stevenson E. Ward

Herbert P. Howell

John E. Rovensky

J. Howard Ardrey

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John J. Keenan

H. W. Schrader

Gaston L. Ghegan

R. E. Stack

Auditor

A. F. Johnson

Manager Foreign Department

Franz Meyer

Statement of Condition

June 20, 1917

RESOURCES

Loans and Discounts	- - - -	\$232,846,802.43
U. S. Bonds & Certificates of Indebtedness		12,474,000.00
Other Bonds, Securities, etc.	- - - -	31,358,416.46
Banking House	- - - -	2,000,000.00
Due from Banks and Bankers	- - - -	12,405,873.20
Cash, Exchanges and due from Federal Reserve Bank	- - - -	83,115,296.51
Customers' Liability under Letters of Credit, Acceptances, etc.	- - - -	30,788,774.39
Interest Accrued	- - - -	788,988.94
		\$405,778,151.93

LIABILITIES

Capital, Surplus and Undivided Profits	- - - -	\$ 45,236,043.11
Deposits	- - - -	311,988,288.47
National Bank Notes outstanding	- - - -	155,000.00
Letters of Credit	- - - -	15,150,740.14
Acceptances based on Imports and Exports	- - - -	13,612,427.84
Unearned Discount	- - - -	1,395,652.37
Bills Payable with Federal Reserve Bank	- - - -	16,000,000.00
Other Liabilities	- - - -	2,240,000.00
		\$405,778,151.93

